

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D.C.



REPLY TO
ATTN OF:

OSA-4294-65
#1715

SUBJECT:

REPLY TO:
Audit Liaison Office
P. O. Box 8155
S. W. Station
Washington, D. C.

TO:

8 November 1965

SUBJECT: Evaluation Review of ECP-1 under
Contract AF 33(657)-12846 (FH-7322)
Airborne Instruments Laboratory
Deer Park, New York

TO : Contracting Officer

REF : AIL Proposal ECP #1940-1, dated 22 October 1965

1. A review has been made, to the extent deemed necessary, of the contractor's cost proposal for an EMR Test Module. This review consisted of an examination of the underlying data in support of the proposed labor rates, overhead rates, material pricing, travel and other direct costs. The direct labor hours, material requirements, the necessity for the proposed travel and overtime hours, are referred for evaluation by technical personnel.

2. A summary of the contractor's proposal by element of cost and the auditor's recommendations are as follows:

	Per Contractor's Proposal	Auditor's Recommended Reduction	Ref Notes
Direct Labor - Engineering	\$ 7,124	\$ -0-	a
Direct Labor - Manufacturing	6,767	-0-	a
Engineering Burden 104%	7,409	143	b
Manufacturing Burden 74%	5,008	203	b
Raw and Purchased Material	4,000	359	c
Travel and subsistence	832		d
Overtime Premium	513		e
Packaging and shipping	275		f
Subtotal	\$31,928	705	
G & A 7.5%	2,395	84	b
Total Cost	\$34,323	\$ 789	
Fee requested 8%	2,746		g
Total Proposal	\$37,069		

Ref. Notes:a. Direct Labor:

The hourly labor rates used to extend the estimated labor hours are considered acceptable for the purposes of this report only. A comparison was made of the proposed composite rates used in each labor class, with the actual incurred to date rates on the 1941/1942 program, since performance of the subject effort will be performed by the same department. This comparison ascertained the reasonableness of the proposed hourly rates. Attached as Exhibit A, is the contractor's breakdown of the direct labor hours by class of labor and effort, which is offered as a guide for evaluating the estimated labor hours.

b. Burdens and G & A

The auditor questions the contractor's proposed burden and G & A rates. Since effort under the subject ECP will be performed during the calendar year 1965, it is the opinion that the bid rates should fairly reflect the contractor's experience. A review of the contractor's book rates for the nine months ended 30 September 1965 indicated that the proposed burden and G & A rates may be excessive. Therefore, the auditor suggests the following recommendations for a reduction in rates and costs to reflect anticipated year-end rates.

	<u>Engineering Burden</u>	<u>Manufacturing Burden</u>	<u>G&A</u>
Rates Per Contractor's Proposal	104%	74%	7.5%
Rates Per Auditor	<u>102%</u>	<u>71%</u>	<u>7.4%</u>
Per cent of Rates Questioned	<u>2%</u>	<u>3%</u>	<u>.1%</u>
Burden Base Per Proposal	\$7,124	\$6,767	\$31,928
Rate Questioned	<u>2%</u>	<u>3%</u>	<u>.1%</u>
Cost Questioned Based on Rate Reduction	<u>\$ 143</u>	<u>\$ 203</u>	<u>\$ 32</u>
Burden Base Costs Questioned			\$ 705
G & A Questioned @ 7.4%			<u>\$ 52</u>
Total G & A Questioned (\$32 + \$52)			<u>\$ 84</u>

c. Raw and Purchased Materials

The contractor's proposed purchased parts were verified to ✓ender quotes and prior buys of like items. The extensions and additions of the bill of materials were verified. No exceptions were noted, but the applicability of the proposed purchased parts to the procured equipment and the frequency of use should be evaluated by technical personnel.

The cost questioned of \$359 represents the auditor's exception to a 10% shrinkage factor applied to the total estimated costs of the raw and purchased materials. The contractor has no historical data to support this percentage.

d. Travel and Subsistence

The contractor proposed two three-day trips to the West Coast @ \$416 or \$832. The costs represent round-trip tourist air fare of \$305, subsistence at \$35 per day and \$6 for travel to the airport. The auditor considers the costs acceptable, but recommends for further consideration of technical representative the necessity for the two trips.

e. Overtime Premium

The contractor's estimate for overtime premium is based on application of a 10% factor applied to the total estimated hours for labor classes VI, VII, VIII, and IX, and priced at one half of the hourly rate for these classes. The necessity of the overtime hours are referred to for further consideration of a technical representative. The following represents the contractor's computation of overtime premium costs:

<u>Labor Class</u>	<u>Hourly Rate</u>	<u>Total Estimated Hours, Per Proposal</u>	<u>O. T. Premium Hours 10% of Estimated Hours</u>	<u>O. T. Premium Rate $\frac{1}{2}$ of Hourly Rate</u>	<u>Total Overtime Premium Per Proposal</u>
VI	\$3.70	\$ 550	55	\$1.85	\$102
VII	3.27	1520	150	1.63	245
VIII	2.80	1060	110	1.40	154
IX	2.33	80	10	1.17	12
					<u>\$513</u>

f. Packaging and Shipping

No exceptions noted.

g. Fee

The contractor has requested a fee based on 8% of the estimated costs.

William F. Edwards

WILLIAM F. EDWARDS

Auditor General Representative (APL)

SCHEDULE OF DIRECT LABOR HOURS

	Eng.	Mech.	Dftg.	Shop	EA
Structure Covers	50			200	
Cabinet			100	200	200
Pwr. Dissipators & Inst.	100	80			40
Air Valves & Flowmeters	100		20	100	
M&E/Electronics	100	120	20	120	160
Nav Simulation	80	40	20	60	40
Status Lamp Driver Output	40	40	20	60	100
Wire & Cable	80	100	40		300
Assy. & Repair	100	80	240	550	80
Total Hours	650	460	460	1290	920

Admin - Type reports and Proceed. = 40 hrs.

P & S 3 Pos. 2 Men 1/2 wk. = 40 hrs.